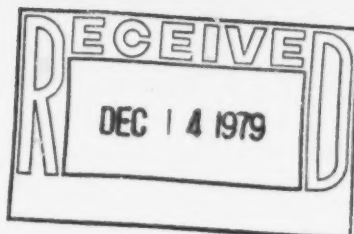


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Irving Trust



Financial Markets

Irving Trust Company
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New York, NY 10015

Economic Research &
Planning Division

Friday

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After slumping on Monday, and then again following Friday's surprising news of an unexpected drop in the November unemployment rate to 5.8%, the credit markets still managed to gain ground this week. Uncertainty over Iran remains, of course, but despite the signs of mounting political and economic instability in Iran, there were hints that international diplomatic efforts to free the hostages might eventually bear fruit. And for now, market attention has shifted back to the domestic economic picture. For the most part, economic developments are becoming increasingly favorable for the interest rate outlook over the longer term, even if the near-term direction of rates--and the question of whether or not they have already peaked--is still open to question. The longer-run prospects seemed to prevail and gave the markets a bit of a lift. As a result, the Treasury's 10 3/8% bonds pushed briefly through the 104 price level, the highest since October 6, and ended the week with a yield of 10.03%.

The improvement in bond prices occurred despite the further increase in the producer price index, which, led by resurging food prices, jumped at a 15.6% annual rate in November. The markets chose to focus on the prospective easing in inflationary pressures, with an expected slump in business in the first half of 1980. But until then, inflation--and its potentially negative impact on the dollar--can reasonably be expected to limit the prospects for an imminent credit easing by the Federal Reserve, and to moderate the extent of easing when it does occur. At the same time, however, there is a growing sentiment that further overt tightening is not likely. And so while bond prices may not move up significantly any time soon, many investors see diminishing risk of further downside price movements and are beginning to scale into the markets.

Continuing weakness in the monetary aggregates, with sizable declines reported for both money measures, also added to the favorable market tone. M1 is now running below the 4 1/2% target path established by the Federal Open Market Committee at its October 6 meeting, and M2 is running roughly on track with its 7 1/2% target path. Slower monetary expansion, if it continues, should eventually ease growth in required reserves and, under a reserve-targeting policy approach, contribute to easier conditions in the money markets.

The markets chose to discount for now the large increase in business loans at New York banks. Loans have been seasonally weak in recent weeks, contributing to speculation that the softening economy is beginning to dampen credit demand. But as past recessions have shown, loans tend to be a lagging indicator, turning down well after the peak in business activity. Thus, it is possible there is still life left in bank credit demand, and that loans will pick up for a while before turning down again in early 1980.

Glenn C. Picou



Prime Lending Rate at Irving Trust Company Short-term loans to substantial depositors with highest credit rating.	12/7/79 (noon) 15.25%	Week Ago 15.50%	Year Ago 11.50%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank.	12.00	12.00	9.50
Federal Funds	13.63	12.46	9.87
Repurchase Agreements	12.50	11.50	9.55
U.S. Treasury Issues - Yields			
Bills			
3 months	12.30	11.89	9.20
6 months	12.50	12.26	9.85
1 year.	11.90	11.91	10.12
Coupons			
2 years	11.18	11.34	9.50
4 years	10.35	10.50	9.02
7 years	10.30	10.45	8.88
10 years	10.24	10.36	8.86
Long Bond.	10.00	10.08	8.79
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.00	12.90	10.15
3 months	13.10	13.10	10.60
6 months	13.10	13.25	11.07
1 year.	12.45	12.40	10.88
Bankers' Acceptances			
1 month	13.05	12.90	10.13
3 months	12.85	13.25	10.53
6 months	13.10	13.30	11.08
Eurodollar Deposits			
1 month	13.75	13.63	10.88
2 months	13.88	14.13	11.25
3 months	14.00	14.38	11.56
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.00	10.13	9.01
1 month.	13.00	12.00	10.08
3 months	11.50	11.75	10.12
Bank Holding Companies			
1 month.	13.00	11.75	10.08
Dealer Placed:			
3 months	13.00	12.50	10.52
New Aa Corporate Utility Bond	11.50	11.75	9.35
Tax Exempt			
6 month Project Notes.	6.15	6.15	5.25
12 month Project Notes.	N/A	6.40	5.40
20 year AAA Bond.	6.70	6.60	5.80

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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